# Indian Electrical Equipment Industry

## Review Half-Year 08-09 and Short Term Business Outlook

## Preamble

The Indian Electrical Equipment Industry started the 11th plan period on a very positive note registering a growth of about 15% in the first year of the plan; 2007-08. During the previous five years too the industry grew at a very healthy rate made possible by the investment by the Government in the Power sector coupled with increased industrial activity and realty sector. It was but natural to expect that the growth story would continue during the coming years since the Government was committed to an ambitious program of capacity addition of 78,577 MW with appropriate supporting transmission and distribution infrastructure. The two schemes; APDRP (Accelerated Power Distribution and Reforms Programme) and RGGVY (Rajeev Gandhi Grameen Vidyutikaran Yojana) were also expected to provide continuous impetus to the demand for electrical equipment [1].

## Review of the first Half of current Financial Year

For the first time after about five years, the industry experienced a deceleration in growth during the fist half of the current financial year, i.e. 2008-09. We at IEEMA had sensed the reversal in trend as early as is the last quarter of the previous financial year and mentioned this in our Article published in July 2008. The Industry has showed the signs of a slowdown during the second successive quarter of the current financial year and it had indicated the reversal of trend even before the global financial crisis was known.

The industry posted an overall growth of 11.8% during the 1st quarter of the current financial year. The growth further decelerated to 6.6% during the 2nd quarter. Consequently, the half yearly growth registered is 8.81% compared to 19.6% registered during the previous financial year [2].

While looking at performance of individual products groups, it is observed that the products which are dependent on the Government and Public sector spending are affected less as compared to those, which depend on realty and industrial sector. This is expected since the investments in these two sectors have been curtailed in view of the global slowdown in the economy and the cautious approach taken by the investors in delaying the investments in the present uncertain situation.

*1. See IEEMA Journal July 2008 issue for a detailed article.*

*2. These growth figures are in terms of volume / quantity and based on the IEEMA statistical data bank, which collects, compiles and collates the production / sales data from its member-organisations and others. This data is analysed by the IEEMA research group, with the help of industry experts representing the respective product sectors, to arrive at the estimated growth rates for each industry sector on a regular basis. The combined growth rate for the industry, termed as the IEEMA Electrical Equipment Industry Index, is arrived at after considering growth and weight of individual product sectors.*

> "With Electricity becoming an exchange traded commodity, higher amount of investments would flow into the power sector."
>
> **Shri Sushil Kumar Shinde**
> Union Minister for Power

| Growth Indices for Electrical Industry | | | |
|---|---|---|---|
| Cumulative Growth Compared to same period of Previous Year (CCPY) | | | |
| **Product** | **Indian Industry Size in Rs. Crores 2007-08** | **Weightages** | **HY 2008-09** |
| LT Motors | 3350 | 7.6 | 13.92 |
| HT Motors | 550 | 1.3 | 26.52 |
| Alternators | 1050 | 2.5 | 15.58 |
| FHP Motors | 725 | 1.7 | 4.04 |
| **Rotating Machines** | **5925** | **13.1** | **13.0** |
| Power Contactors | 420 | 1.4 | -7.92 |
| LT Circuit Breakers | 1135 | 3.7 | 13.37 |
| MCB | 750 | 2.4 | 8.62 |
| S/F & F/S Units | 250 | 0.8 | -6.03 |
| HT Circuit Breakers | 1850 | 6 | 4.79 |
| **Switchgears** | **6500** | **14.3** | **5.21** |
| Power Cables: PVC | 8500 | 20.9 | 15.71 |
| Control Cables & other Special Purpose Cables | 2700 | 6.7 | -8.29 |
| **Cables** | **12500** | **27.6** | **9.69** |
| Power Transformers | 3950 | 8.7 | 30.41 |
| Distribution Transformers | 6750 | 14.9 | -21.93 |
| **Transformers** | **10700** | **23.6** | **-0.29** |
| HT Capacitors | 115 | 0.2 | 52.63 |
| LT Capacitors | 230 | 0.5 | 21.39 |
| Capacitor Industry | 345 | 0.7 | 35.27 |
| Energy Meters | 1200 | 2.6 | -5.03 |
| **Energy Meters** | **1200** | **2.6** | **-5.03** |
| T.L.T. | 3600 | 9.5 | 12.79 |
| Conductors | 3250 | 8.6 | 33.58 |
| **Transmission Lines** | **8200** | **18.1** | **21.10** |
| **Total** | **45370** | **100** | **8.81** |

| Electrical equipment Industry - Quarterly Growth Trend | | | | | | |
|---|---|---|---|---|---|---|
| **Product Group/Sector** | **1st Qtr. 2007-08** | **2nd Qtr. 2007-08** | **3rd Qtr. 2007-08** | **4th Qtr. 2007-08** | **1st Qtr. 2008-09** | **2nd Qtr. 2008-09** |
| Rotating machines | 21.6 | 15.5 | 10.4 | 14.8 | 17.3 | 8.4 |
| Switchgears | 20.21 | 19.49 | 20.56 | 12.07 | 8.92 | 1.95 |
| Cables | 4.76 | 25.32 | 5.04 | 21.38 | 15.06 | 7.16 |
| Transformers | 16.57 | 44.82 | 9.49 | 2.26 | 7.28 | -5.91 |
| Capacitors | -18.67 | 0.57 | 13.23 | 36.38 | 14.09 | 55.63 |
| Energy Meters | 3.52 | 17.52 | 9.64 | -8.82 | -16.24 | 9.05 |
| Transmission Lines | 21.52 | 12.76 | 19.61 | 12.24 | 14.86 | 22.46 |
| **Overall Index** | **14.53** | **24.55** | **11.80** | **12.55** | **11.58** | **6.62** |

## Sector wise Growth Analysis

Although most of the product groups showed a decline in growth, some products like conductors and power transformers could buck the trend and have shown remarkable growth of 33.6% and 30.6% respectively.

The growth in conductors is attributed to the flow of orders from the single largest customer; i.e. PowerGrid. The manufacturers of conductors are optimistic about the order flow in near term coupled with a good export demand.

Power transformers have also clocked in an exceptional growth of 30.6% including 50% growth in exports. Demand from upcoming evacuation systems has helped the 400 KV and above segment to grow by about 10%. It has to be seen now how the export market will behave after the global slowdown in economy.

Delays in funding and order finalizations for the Government sponsored programme - RGGVY and by many other utilities has resulted in decline in demand for distribution transformers to the extent of 10% in 1st Quarter, further reducing to 22% till 1st half of the fiscal. However, there is a possibility of figures being better than reported as it is difficult to capture production of non-reporting sectors in total.

> Economy will rebound in 6 to 9 months. There will be some slowdown in every sector but monetory measures and enlightened measures by the companies themselves can get over this painful period of adjustments.
>
> **P Chidambaram**
> The then Union Minister of Finance
> (Currently Union Minister of Home)

It is also heartening to note that the Government has sanctioned Rs 3,000 crores for RGGVY for this year itself. It is expected that this funding will stimulate demand for medium and low voltage equipment.

Deceleration in growth is also visible in the switchgear segment, where the half yearly growth has reduced to a mere 5% from 11% in the 1st quarter. Slump in the construction projects as well as delays in industrial projects has resulted in slow down in growth for LV switchgear like MCBs, ELCBs, MCCBs, fuses, contactors etc. However, launching of the revised National Electricity Code for buildings and promotion of awareness for safety may create some demand in near future.

High voltage breakers have grown by just 4%. But, breakers of rating above 220 KV, which are an integral part of power transmission system, have declined by 20%. This is a bit surprising since both transmission projects and power transformers have done well during this period.

The cable industry registered an overall growth of 9.7% propelled by 15.6% growth in power cables segment. It is also experienced that the domestic demand is rising, especially for cables above 33 kV. However, imports of HV cables have also increased to a large extent. On the other hand requirement of specialty cables like, railway signaling cables has reduced sharply.

Capacitors, being the last items in the power T&D segment are witnessing a surge in demand with 35.3% growth, mainly for above 132 KV class. This is normal fallout of last year's growth in the sector since the requirement for capacitors generally lags by about 6 months to one year. By this reasoning, the industry may expect a slowdown in the remaining half year.

Rotating machines, which cater to various core sectors, has reported a growth of 12.6%. Demand is mainly for motors above 355 frame sizes indicating a positive momentum in the core sector industries. However, imports in this segment have also grown substantially. On the other hand, the demand for smaller motors is suppressed. Captive power generation by SMEs and telecom tower segment continues to add demand for alternators, which has shown a growth of 15.6%.

## Business Outlook - Short term (October 2008 to March 2009)

India is currently experiencing a slowdown in economic growth as a result of the credit squeeze, following the world trend. The global financial crisis faced by the world and particularly in the developed nations, has cast a shadow over most countries, which have gone in a depressed economic situation.

> The country's economy will need stimulus package in next fiscal as well since global slowdown will continue in 2009-10. Since global slowdown will continue next year also, fiscal stance that needs to be considered should not be just for this fiscal but also for the next year.
>
> **Montek Singh Ahluwalia**
> Member - Planning Commission

> The weight of the economic policy has increasingly shifted from inflation to growth and production.
>
> **Dr Arvind Virmani**
> Chief Economic Advisor
> Ministry of Finance

IEEMA product divisions, which meet periodically to share information on the state of industry, felt that, in the present uncertain economic environment, a survey compiling views of the industry leaders and experts could be handy in planning and decision-making. IEEMA thus carried out a survey, findings of which, based on feedback received from 80 organizations, are presented below:

About 50% of the companies have foreseen the GDP growth would be around 7.5% in the current fiscal whereas 40% of the feedback expresses it to be around 7%, while the remaining 10% have shown high optimism with expectations of growth of above 8%.

While 15% of the respondents are expecting the overall economic situation to be substantially worse in the 2nd half of this current fiscal, 55% have said that the conditions to be moderately worse and 30% are expecting neutral to moderately better results.

According to 55% of the respondents, the electrical Industry performance is expected to remain in the range of no change to moderately better, whereas 40% feel it be moderately worse and 5% are expecting the performance to be substantially worse.

A large number; in fact more than 60% of the respondents have opined that the across the board 2% reduction of excise duty announced in union budget of 2008-09 has not assisted to boost the demand. It is to be seen now if the further 4% cut would stimulate the demand.

> The recovery should be visible in 2 quarters.
>
> **Mr K V Kamath**
> MD and CEO - ICICI Bank

> I am conscious that the current environment is challenging, but I am optimistic about the future. It is challenging because it is volatile and it requires that the organisation is nimble enough to keep course, correct strategy and watch that steps are in line with the environment. I am optimistic because I believe in the fundamental strength of India.
>
> **Mrs Chanda Kochhar**
> JMD and CFO - ICICI Bank

## Review of prospects for the industry in terms of various manufacturing indicators

About 35%, who are mostly accessories and component suppliers to transmission project builders and transformer manufacturers, have said that their sales would be higher in the coming 6 months. However, about 60% have expressed no change to decline in sales in the next 6 months.

Naturally, most of these 35% respondents expect increase in production and in investment whereas the remaining 65% expect no change or decline in production as well as investment. However, 50% of the respondents seem to be affected by successive hikes in interest rates which may led to either hold back or reduction in the proposed investments.

Exports growth is likely to be decelerated as expected by almost 75% of the respondents.

Almost everybody has unanimously informed that there will be decline in selling prices as it was clearly evident from the sharp decline in various input raw material prices in the 3rd quarter. Industry expects that this reduction in prices will continue or sustain for some more period.

As far as inventory is concerned, 45% feel that they will have to deal with higher inventory levels in the short term. 60% confirm no change in employment strategies whereas 20% are aggressive and planning increasing manpower.

> The slowdown will be shorter for India than other countries. India will emerge as a manufacturing hub for the globe when the slowdown recedes. Demographic factors will aid in emerging as a strong market place. During recession, companies will be forced to become leaner and more efficient. During next 12 months, there will be a shake out in the market. Weaker players will be forced to shape up or sell off.
>
> **Raghavendra Rao**
> Frost and Sullivan

## Analysis of adversely affecting factors

Three major factors, emerging out of the feedback, which are affecting adversely the overall business performance are:

Credit - Availability and its cost (45%)

Weak market demand (25%)

Excess production capacities (20%)

In fact, credit squeeze has resulted in weaker market demand, which results in excess production capacities for the manufacturers. Since these factors are linked to each other, ease in availability of cost of credit becomes the foremost priority to tackle. Unprecedented variation in input raw material costs in a short span has also disturbed the suppliers. SMEs which are the backbone of OEMs are the worst hit by the credit crunch problem.

## Production Capacity and its Utilization

90% of the respondents have expressed that Capacity Utilization was close to 75% in the first half of this fiscal and will be more or less same for the next half. While planning for production capacity, half of the respondents have reposed faith in conventional

> Using a model that has proved accurate in the past, he warns that GDP growth could slow to just 3.9% in 2009-10.
>
> **Rajiv Kumar**
> Head of the Indian Council for Research on International Economic Relations (ICRIER),

method based on average level of orders received, whereas 40% have relied on future sales forecast.

## Conclusion

The scenario emerging from global meltdown would need to be watched closely. Since a further slowdown in domestic and exports demand, resulting in over capacities could create problems for the industry. On the flip side, however, the recent reduction in prices of the major raw materials like copper, aluminium, steel, fuel and polymers could stimulate the demand with reduction in project costs. A strong dollar would also help exporters and especially those whose value additions are high and who do not depend on imports to a large extent.

It is observed that although the funded projects may not be affected, the non-funded and BOT projects are likely to be impacted with the squeeze in money supply and cautious approach of project builders and investors. Especially, the public private partnership projects are expected to slow down due to reasons mentioned above and since Government's role in PPP is just as an enabler having small portion of the capital. Industry therefore needs to prepare itself with shorter delivery periods as bulk of T&D order flow is likely to be delayed in FY 2010.

> India Inc well positioned to survive this turmoil.
>
> **P K Choudhury**
> Vice-Chairman & Group CEO - ICRA Ltd

The Indian electrical industry is hoping for an urgent stimulus from the Government to spur the domestic demand and a need for faster implementation of the on-going projects for augmenting power generation, T&D systems like RAPDRP (APDRP II) and RGGVY.

Unless the Government allocates funds for the power sector, which it is committed to, the industry could fall into the trap of demand compression. We hope the Government takes right steps to boost the demand for the sector.

**Ninad Ranade**
IEEMA, Mumbai